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Report to Stockholders

YEAR ENDED DECEMBER 31, 1945



BOEING AIRPLANE COMPANY and SUBSIDIARY COMPANIES

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANIES

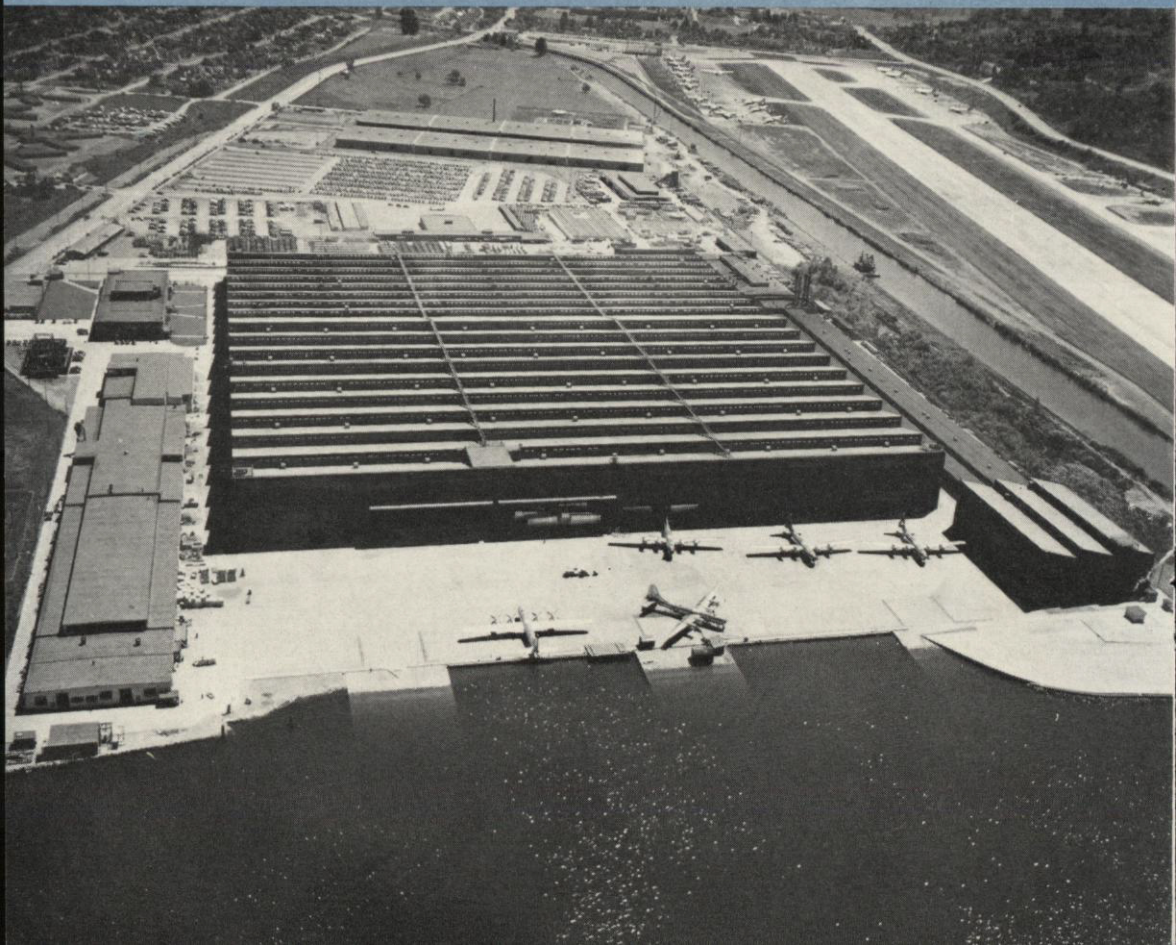
Corporate Structure

Boeing Airplane Company, with its head office in Seattle, Washington, operates a division at Wichita, Kansas. Boeing Airplane Company owns all of the capital stock of Boeing Aircraft Company, which operates plants at Seattle, Washington, and Renton, Washington. Boeing Aircraft Company owns all of the capital stock of Boeing Aircraft of Canada Limited, located in Vancouver, B. C. In this report, for convenience, Boeing Airplane Company and Boeing Aircraft Company are sometimes collectively referred to as "the Company."



WICHITA • Boeing-Wichita plants, where B-29 production began and Kaydet trainers were built. In foreground, RFC-owned B-29 plant; background, Boeing-owned plant.

RENTON • The RFC-owned plant at Renton, Washington, originally built to produce Boeing patrol bombers for Navy, subsequently used in the B-29 Superfortress program.





SEATTLE • Main plant of Boeing Aircraft Company in Seattle, Washington, where B-17's and B-29's were developed and where B-50's, C-97's and Stratocruisers are now being built. Major portion of plant, in foreground, is covered by wartime camouflage.

Annual Report

To the Stockholders of Boeing Airplane Company:

The Annual Report for the year 1945 covering the operations of Boeing Airplane Company and its subsidiary companies is submitted herewith.

BOEING'S WAR RECORD

The past year has seen the successful completion by Boeing of a most difficult and comprehensive war production program. The Company completed its 2,704th B-29 Superfortress. 1,644 of these were produced at Wichita and 1,060 at the Seattle-Renton plants. They comprised 70 per cent of all the Boeing B-29's built by the combined group of companies engaged in this program, including Bell Aircraft Company, Glenn L. Martin Company and Fisher Body Division of General Motors. At Seattle, prior to the total conversion

to B-29's, the Company produced its 6,981st B-17 Flying Fortress. This number comprised 55 per cent of all the Boeing B-17's built by Boeing, Douglas and Lockheed, the companies which were teamed together in this program. At Wichita the Company also completed its 10,346th Kaydet Primary Trainer, a plane used by both the Army and the Navy. This was the largest number of primary trainers built by any company.

The outstanding effectiveness of these aircraft has already been recorded in the press and official reports throughout the war. Certain figures now available should be of interest to stockholders as demonstrating the key importance of Boeing products in both the European and Pacific wars:

A total of 640,036 tons of bombs were carried to Nazi targets by Boeing B-17 Flying Fortresses, compared with 452,508 by all other U. S. heavy bombers and 463,544 by all other U. S. aircraft, including medium bombers, light bombers and fighter types. Moreover, the B-17's were assigned consistently to the most important, most heavily defended targets. Evidence of this are the figures now available on enemy fighters destroyed in the air. The Fortresses on 291,508 flights shot down 6,659 enemy aircraft. All other U. S. bombers on 470,954 flights shot down 3,230 enemy aircraft.

Boeing Superfortresses, key aerial weapons of the Pacific war, carried 169,421 tons of bombs out of the total of 176,202 tons delivered to targets in Japan. Despite the vast distances from our bases, the enemy's major industrial areas had been destroyed by this process by the summer of 1945. The B-29's then carried the atomic bombs which led to immediate Japanese surrender.

The great importance of the B-29 in the war against Japan, like that of the B-17 in Europe, gave Boeing a responsibility in the war which, it is felt, exceeded that of any other aircraft manufacturer. This included not only the responsibility for design and production of the airplanes, but also the supplying of engineering and manufacturing information to the five other prime contractors and scores of subcontractors engaged in producing Boeing planes and parts. In addition the Company provided engineering liaison service at all military training fields and operating bases in the war theatres, and trained Army technical personnel to service the B-17's and B-29's at the front. The Boeing Superfortress School in Seattle had given instruction to approximately 18,000 Army B-29 mechanics and

technicians by the time it closed on October 10, 1945. It had previously trained approximately 14,000 B-17 mechanics. The responsibilities above referred to continued to the last day of the Pacific war.

THE YEAR'S PRODUCTION

At Boeing-Wichita, which carried the burden of initial production of B-29 Superfortresses, production reached the scheduled rate of 100 per month in February, 1945, and was continued at this rate through August. At Boeing-Seattle, where an all-industry production record had been set with B-17 production the previous year, the difficult factory-wide conversion to B-29's was completed early in 1945. Although B-17 deliveries were still being made at the rate of 100 per month during February, B-29 deliveries were being simultaneously accelerated at an unprecedented rate. January's output of 50 Superfortresses was increased to 160 by July, which rate was established by the Air Forces as the maximum required under the then existing war conditions. The Seattle-Renton operation had been planned to attain a monthly rate of 300, if such quantity should be required.

The high B-29 production was accomplished by completely integrating the operations of the Boeing-Seattle Division, the nearby Renton Division, the eight branch plants in western Washington, and the Boeing Aircraft of Canada plant at Vancouver, B. C.

TERMINATION AND RECONVERSION

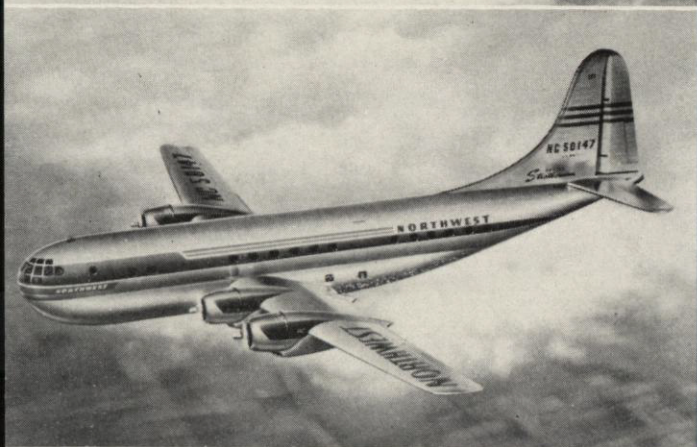
Immediately following the Japanese surrender, the Company was notified by the Army of contract cutbacks wherein its production schedules would be tapered off during the next several months. Three weeks later new cutback orders were received which amounted substantially to cancellation of existing B-29 contracts, since virtually all of the planes called for under the drastically reduced schedules were either completed or in process of assembly. This made it necessary for the Company to reduce its employment from 35,654 to 6,132 in the Seattle area and from 16,348 to 1,402 in Wichita, and to discontinue temporarily virtually all factory operations while work plans were rearranged to meet the new conditions. Those retained were largely engineering, termination and planning personnel. Engineering was put under way on sixty B-50 bombers, an advanced bomber of the Superfortress type, and ten C-97 Army cargo transports, the transport development of the B-29. Sales efforts already under way on commercial models were intensified. Although handicapped because the military load up to the end of



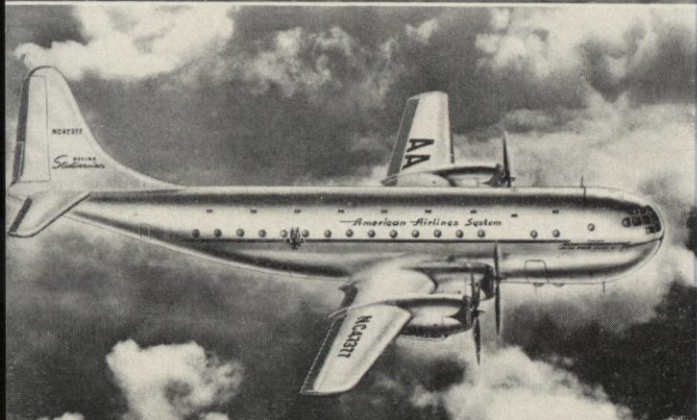
Pan American World Airways will feature Boeing Stratocruisers on Atlantic and Pacific trunk lines.



Swedish Intercontinental Airlines will use Stratocruisers for luxury through service to Scandinavia.



Northwest Airlines first brings Stratocruiser standards to domestic routes; also plans Pacific line.



American Overseas Airlines, Inc., has contracted for fleet of Stratocruisers for Atlantic operations.

the war had prevented it from being prepared to deliver commercial aircraft for the immediate post-war market, the Company had one offsetting advantage: in its B-29 development program it had carried its design advancements to such a high level that the corresponding transport design—the Boeing Stratocruiser—offered a combination of high performance, utility, and low operating cost that could not be matched by any other available transport. The first contract for Stratocruisers was signed with Pan American World Airways in November. The contract called for twenty of these two-deck, 80-passenger transports, with deliveries to begin in one year.

As of the close of 1945 the Company's overall employment stood at 8,803, with plans calling for an increase to approximately 16,000 during the year 1946. The backlog of unfilled orders as of December 31, 1945, was approximately as follows:

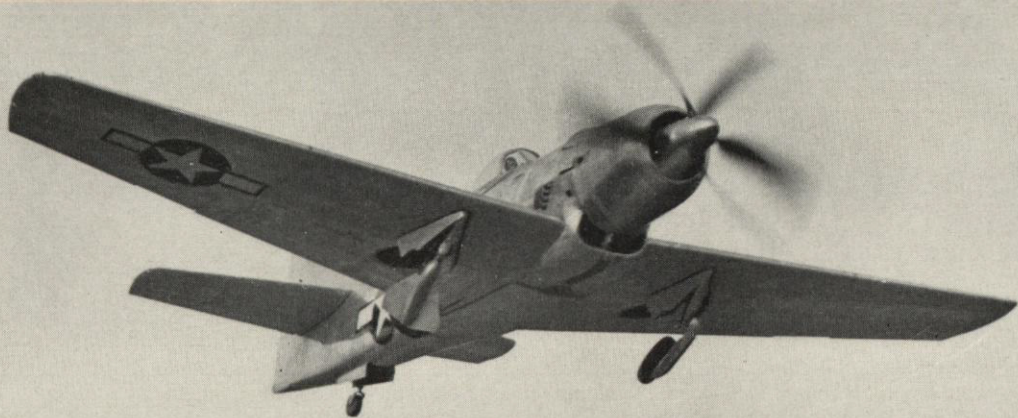
Commercial	\$25,000,000
Military	65,000,000
Total	<hr/> \$90,000,000

SALES PROGRAM

In organizing its sales program to meet the highly competitive conditions prevailing in the aircraft industry, the Company has integrated its engineering and sales divisions into a closely coordinated unit. It is believed this integration will prove advantageous to the Company and to its customers.

As of the date of this report, the Company has contracted to sell a total of forty-two Stratocruisers to Pan American World Airways, Swedish Intercontinental Airlines, Northwest Airlines and American Overseas Airlines, Inc. Negotiations for the sale of additional Stratocruisers are being carried on with other domestic and foreign airlines. An engineering and market study is being carried forward by the Boeing-Wichita Engineering Division in conjunction with the Seattle organization on a new, smaller type transport, the Boeing Model 417. It is believed that this twenty-passenger airplane will prove attractive to local service operators and to concerns interested in executive transports.

A moderate program of national advertising is being conducted to assist in translating to the public Boeing's war-proved engineering and manufacturing superiorities in terms of the new Boeing Stratocruisers, and to help build potential passenger traffic for these air-

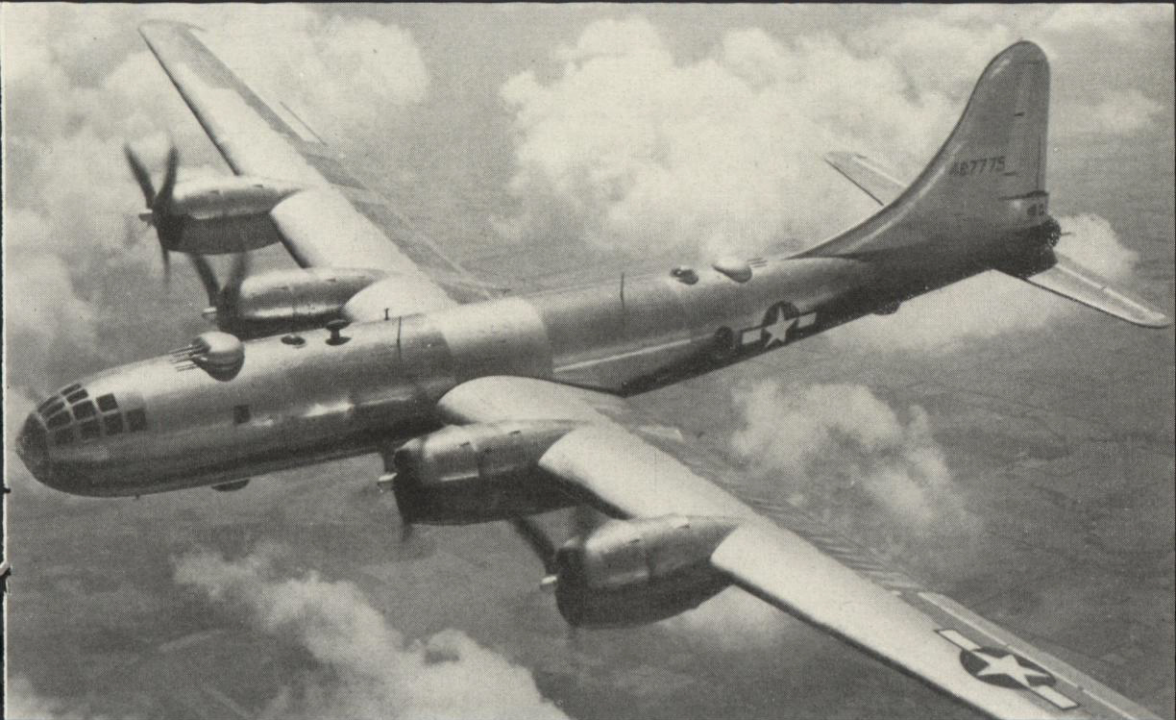


XF8B-1 FIGHTER: Boeing diversified its field with design of the experimental XF8B-1 fighter for Navy. Because of turn of war, production quantities were not required.

planes. This program is designed to capitalize on the outstanding popular recognition of the Boeing Fortress and Superfortress and the resulting public confidence in Boeing aircraft.

FLIGHT RECORDS

During 1945 three outstanding flights drew special attention to Boeing design leadership in the large airplane field. In January a Boeing C-97, military prototype of the Stratocruiser, flew non-stop from Seattle, Washington, to Washington, D. C., a distance of 2,323 miles, in six hours, three minutes and fifty seconds, at an average speed of 383 miles per hour, breaking all previous records from coast to coast by any type airplane. The record still stands as the fastest transcontinental time by any transport airplane. In November a Boeing B-29, piloted by Colonel C. S. Irvine, established a new world's non-stop distance record, by flying from Guam to Washington, D. C., 8,190 miles, in 35 hours. In December the same B-29, "Dreamboat," set a new official transcontinental record of five hours, twenty-seven minutes from Burbank, California, to Floyd Bennett Field, New York, a distance of 2,454 miles, at an average speed of 450 miles per hour. This speed, subsequently exceeded by a jet fighter plane, remains the official world record in the category of larger airplanes carrying passengers or crew.



SUPERFORTRESS: The Boeing B-29 (above), key weapon of the Pacific War, is being followed by the B-50, a new model designed to meet advanced defense requirements.

DEVELOPMENT WORK

Diversifying its field of products, the Company completed at Seattle for the U. S. Navy a new experimental high-speed fighter airplane, the XF8B-1. It is designed for versatile operation as a fighter, bomber, attack plane, interceptor, or torpedo plane.

Several other new military projects are under way, details of which are restricted. These include a jet bomber, the XB-47, and research projects in the field of turbo jet engines and guided missiles.

Throughout the year the Company continued its high altitude flight research program for the Air Materiel Command. This program, unparalleled elsewhere, from 1941 to the end of 1945 had embraced 792 high altitude test flights, 149 of them above 35,000 feet and 20 above 40,000 feet.

Extensive wind tunnel research applicable to future aircraft was carried on in the Boeing Wind Tunnel. Research activities in other phases of aeronautical development were also carried into new advanced territory.

As reported in previous annual reports, the Company has also carried on a limited program of preliminary studies to determine the feasibility of successful entrance into fields other than aircraft. Last



ABOVE: Main passenger cabin of the Boeing Stratocruiser. Various versions range in capacity from 60 to more than 100 passengers, depending on type of operation.

BELOW: Lounge in lower deck of the Stratocruiser. This unique "double-deck" feature provides passengers additional comfort and relaxation, plus reserve seating capacity.



year it was stated that the Management had concluded that its principal activities should be confined to the aircraft field. By reason of the heavy demands upon the Engineering Department in the aircraft field, the Company has suspended its non-aircraft studies. These may be revived at a later date.

ELECTION OF PRESIDENT

On September 5, 1945, the Board of Directors unanimously elected William M. Allen president of Boeing Airplane Company and Boeing Aircraft Company to fill the vacancy created by the death of Philip G. Johnson. Mr. Allen had been closely associated with the Company for many years as its legal counsel and as a member of the Board of Directors.

PLANT FACILITIES

The principal plant of the Company at Seattle is comprised of approximately 2,286,000 square feet of floor area, of which 396,000 square feet is owned by the Government. The Company is negotiating with the Government for this area and for certain machinery and equipment belonging to the Government, all of which is necessary in the Company's operations. It is expected that the cost of these items to the Company will be approximately \$2,000,000. The Company also owns its original Plant No. 1 in Seattle comprising approximately 358,000 square feet, principally used for experimental work.

The plant at Renton, Washington, is owned by the Reconstruction Finance Corporation and will be returned to that agency during the year 1946.

During the war, the Company operated eight branch plants in various cities in Western Washington. These plants, which were all in leased premises, have been closed and the leases terminated.

The large plant at Wichita owned by the Reconstruction Finance Corporation will be returned to that agency during the year 1946. At a cost of approximately \$750,000 the plant at Wichita owned by the Company has been modernized, altered and enlarged in certain respects and additional machinery and equipment have been acquired.

The plant owned by Boeing Aircraft of Canada Limited in Vancouver, B. C., was not suitable for the manufacture of aircraft. During the latter part of 1945, the plant was sold for \$90,000 and the Company-owned machinery and equipment therein are being sold. The principal plant operated by the Canadian Company during the war was owned by the Canadian Government. This plant has been re-

turned to the Government with the exception of certain office space required for accounting and office personnel. All other areas under lease have been vacated.

INDUSTRIAL RELATIONS

The year 1945 with its transition from all-out war time production to limited peace time production was accompanied by an abrupt change in manpower requirements.

The return to a 40 hour week in September, with reduced manpower requirements, eliminated the necessity for transportation, rationing, housing, banking and post office services, as well as pre-induction and in-plant training. Other services such as medical and in-plant hot food service are being continued.

At Seattle, negotiations with the International Association of Machinists culminated in the execution in March, 1946, of a revised collective bargaining agreement. This agreement continues for a period of one year and thereafter until revised by mutual agreement. The Company has made application to the appropriate Governmental agency for approval of wage and salary increases for both Union and non-Union employees, which will result in an increase in labor costs of approximately 15%, retroactive to February 1, 1946.

The Wichita Division has an agreement with the International Association of Machinists which continues for one year from November 6, 1945. The agreement provides for reopening of wages on 30 days' notice in the event of rate increases in the airframe industry generally, including the three other Wichita airframe plants.

EMPLOYEE PENSION PLAN

For several months the Company has been giving consideration to the advisability of recommending to stockholders the adoption of some type of pension or retirement plan for employees. Several types of such plans have been studied to determine which is most adaptable to this industry and which would most nearly meet the objectives involved.

If a workable plan can be developed, the Management believes that it would bring about a closer cooperative relationship between the Company and its employees and, at the same time, would provide a means of affording employees of long service some measure of financial security upon retirement.

If a plan is developed which appears feasible and which, in the Management's opinion, will accomplish the objectives above set forth, such plan will be submitted to the stockholders for their consideration.

APPRECIATION OF EMPLOYEES' EFFORTS

Elsewhere this report has told of the contribution made by Boeing products in the winning of the war. The effectiveness of these products is a direct tribute to the individual employees whose devoted efforts made them possible, and to them the Company again expresses its great appreciation. Following victory came a difficult period of readjustment, when work was not available for many of the Company's oldest and most valued employees. It is a great source of satisfaction that as this report is written, a substantial number of employees are each day being returned to their positions.

Eighteen thousand five hundred six employees of Boeing served in the Armed Forces in World War II and several hundred employees gave their lives in the service for their country. The Company is deeply appreciative of the patriotic efforts of all of its employees.

PROFITS

Due to the progressive termination of the war during the spring and summer of 1945 and the consequent termination of contracts the Company's sales were materially less than those of 1944. These same events made it no longer advisable to provide additions to reserves from current profits as was done in previous war years. The profit transferred to surplus for the year was \$6,488,705. This may be compared with the 1944 profit as follows:

	1945	1944
Profit before reserve provisions and accelerated amortization	\$7,171,975	\$9,937,522
Less:		
Reserve provisions	None	4,680,000
Accelerated amortization net of tax credit	683,270	None
Profit transferred to earned surplus	<u>\$6,488,705</u>	<u>\$5,257,522</u>

RENEGOTIATION

Notwithstanding the Management's opinion as expressed in last year's report that the Company should not be subjected to renegotiation for the year 1944, the War Department took the position that the Company had realized excessive profits during the year. The Company has executed an agreement (which has not yet been approved by the Government) which provides that the Company shall, in addition to the waiver of certain claims against the Government, substantial in amount, make a gross refund of \$507,691.90. The claims which were waived had all been charged to Profit and Loss by the year's end. If this agreement is accepted by the Government it will mean that the net cash refund after deducting the tax credit will be \$142,153.70. It is contemplated that this net cash refund will be charged to the reserve for contract adjustments and indeterminate expenses resulting from wartime conditions.

The various renegotiation boards with which the Company has dealt during the war period have given consideration to the Company's outstanding contribution to the war effort by reason of the efficient design and quantity production of its aircraft. However, the boards' views as to what constitutes a reasonable percentage of profit have been progressively lower.

The Company's contribution to the war effort during 1945 was relatively as great as or greater than that of previous years. However, there is no indication at this time what the renegotiation boards' attitude will be with respect to a reasonable rate of profit in light of this contribution. It is not therefore possible to give any indication of how much, if any, the Company will be required to refund as excessive profits realized during 1945.

RESERVES

The balance in the reserve for contract adjustments and indeterminate expenses resulting from wartime conditions remains the same as at the end of the year 1944. Subsequent to V-J Day the Company incurred unrecoverable deceleration and conversion costs which together with amortization applicable to prior years (due to the shortening of the amortization period) could be considered as a proper charge against this reserve. On the other hand, as heretofore set forth, the profits for the year 1945 are subject to reduction under the Renegotiation Act. Furthermore, as a result of continued operation under Cost-Plus-a-Fixed-Fee contracts additional items of cost, applicable to the year 1945, may be disallowed over and above

those anticipated. In addition, liabilities may arise by reason of loss or damage to Government property. To the extent that these items are attributable to operations for the year 1945 provision therefor might properly be made out of the year's operations. These items are not subject to an accurate evaluation and it is the Management's opinion that the aggregate of the items properly chargeable to this reserve as above set forth, approximately equals the aggregate of the items for which additional provision is not made elsewhere in the accounts. It is not possible to determine the ultimate amount chargeable to this reserve and some part thereof may be returned to surplus.

The reserve for development of post-war products and markets remains unchanged during the year except for a reduction of \$353,869 resulting from adjustments of the post-war refund of excess profits taxes of prior years. The Company has not utilized this reserve in 1945, due to the fact that the war continued to demand substantially all of its efforts for most of this year. The Management believes that the same reasons which impelled it to establish this reserve, dictate that it be retained at this time for probable use in the future. The reserve, as originally established, was to be funded by the post-war excess profits tax refund bonds. During the year 1945 the Federal tax law was changed, with the result that certain of the amounts became immediately available in the form of cash or tax credits and the balance became available in cash as of January 1, 1946. Since the post-war bonds have largely been converted into cash, the Board of Directors has authorized the use of these funds for general corporate purposes. Consequently the above reserve is no longer funded.

CURRENT POSITION

It will be noted that an unusually large portion of the Company's assets are represented by cash or by United States Government securities. This is due to the fact that at the time the Company's contracts with the Government were substantially terminated the Government owned a very great portion of the inventories involved in the performance of such contracts. Since the Company was not permitted during the war to develop post-war products to any substantial extent, the Company following V-J Day and for the balance of 1945 was principally engaged in converting its claims under its war contracts into cash. During this period the expenditures made in the development of new products were relatively small. During the year 1946, however, the Company will for the most part be engaged in the manufacture of new products, both military and com-

mercial, under fixed price contracts. This will require the investment of its liquid assets in necessary materials and work-in-process inventories.

It will also be noted that included in current assets is a net amount of \$13,316,777 consisting of estimated reimbursable costs and accrued fees. This amount represents the Management's best estimate of the amount which will be realized after giving due consideration to probable disallowed and unrecoverable costs.

FIXED PRICE CONTRACTS

The Government abandoned its program for the conversion of all outstanding cost-plus-a-fixed-fee production contracts to fixed price. Substantially all new contracts, however, both military and commercial, are being entered into on a fixed price basis. This has necessitated the estimating in these uncertain times of costs expected to be incurred as far as two years in the future.

FEDERAL INCOME AND EXCESS PROFITS TAXES

The Company has made every effort to foresee its tax liabilities and to make provision for them. However, due to the tremendous increase in the volume of business done by the Company during the war period and to the requirement that the Company accomplish extraordinary things, it is impossible to be at all certain that the Bureau of Internal Revenue will not subsequently contend that further taxes are due. Any valid assessment which the Bureau may make with respect to a previous year will bear interest at the rate of 6% per annum from the time such payment should have been made.

BOEING AIRCRAFT OF CANADA LIMITED

Upon the termination of war contracts, the Canadian subsidiary was without business to support a continuing manufacturing operation and there was no prospect for new business in the near future. In addition, as stated elsewhere in this report, the small Company-owned plant was not suitable for aircraft manufacture. It was therefore decided to put the Company in a liquid condition and to reduce the organization to a minimum as rapidly as possible. The Directors feel that the continuance of a Canadian organization in the hope that business will develop is not justified and that the preferable course is to undertake a rebuilding of the organization at such time as circumstances would justify such action.

As has been the practice in recent years the financial statements of Boeing Aircraft of Canada have not been consolidated with those of the domestic companies and a condensed balance sheet as at De-

cember 31, 1945, in Canadian dollars, together with pertinent footnotes and the certificate of the Canadian auditors, is again presented. It will be recalled that the Canadian Company in previous years has been primarily engaged in work for the Canadian Government and that it has not been possible, due to the provisions of the contracts and to the operation of the Canadian excess profits tax act, to determine the net profits on approximately \$50,000,000 worth of shipments made during 1943 and 1944. These matters have now been settled and the balance sheet reflects the adjustment in profits for the years 1943 and 1944 as well as the profit for 1945.

In the past years due to the heavy losses sustained by the Canadian subsidiary, the parent company, Boeing Aircraft Company, provided on its books a reserve of \$443,402 to reduce the investment in and the advances to the Canadian subsidiary to their underlying book value. That reserve has now been eliminated by means of a credit to the surplus account and the amount shown on the consolidated balance sheet represents the actual cost to the Company of the investment. It should, however, be noted that the Company's equity is \$1,383,467.90 Canadian dollars as shown in the Canadian balance sheet. This is not the amount which could be realized in American dollars on these assets.

THE OUTLOOK

The end of the war found the aircraft industry capable of producing many times the peace time demand, with the result that there has been a "buyers market" in both the commercial and military fields. It should be recognized that this condition may continue for a substantial period of time.

Not only is the competition for business extremely keen throughout the aircraft manufacturing industry, but the risks which must be taken are great and of almost daily occurrence. The cost of developing a new model which, in order to be saleable, must surpass the performance capabilities of existing models, has increased tremendously. It is a necessary practice for an aircraft manufacturer to invest millions in the development of a new model without any certainty that a return of the investment through quantity orders will be forthcoming.

Due to strikes in the aluminum, electrical and other industries the Company is experiencing substantial delays in the receipt of critical materials which will prevent it from making delivery of its aircraft as originally contemplated. It is therefore expected that

deliveries of aircraft in 1946 will be principally confined to the C-97 airplanes herein referred to and to the completion of the B-29 contract. At the close of 1945, sixty-two B-29 airplanes remained to be delivered.

The Management has great confidence in the qualities of the aircraft which the Company has under construction for the Government and for commercial airlines. The Stratocruiser, which is a commercial development of the famous B-29 and the C-97 military transport, in the Company's opinion, will be in a class by itself in the commercial field. The combination which it offers of great load carrying capacity, speed, comfort and earning power, should make it the leading commercial transport when it enters service early in 1947.

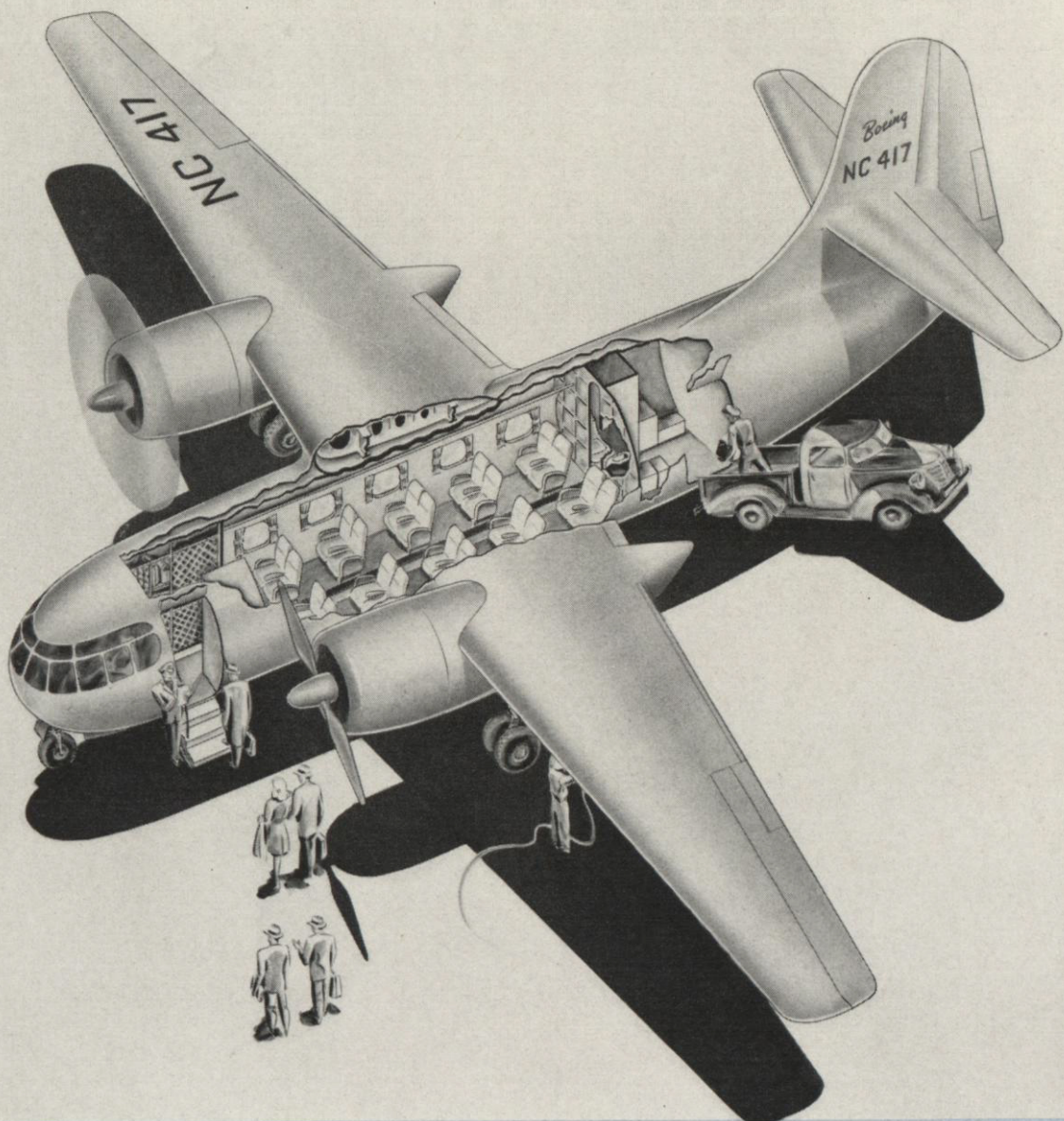
In the military field, it is expected that the B-50 long range bomber will achieve the same superiority over other aircraft of similar type as did its predecessor, the B-29. Supplementing the B-50 is the military transport, the C-97, combining the same outstanding qualities of speed, range and load capacity.

The Company has contracted or is contracting for the sale of these aircraft in quantities sufficient to sustain a moderate operation through 1946 and the first half of 1947. The Management confidently looks forward to further sales of these aircraft and to the development of other models which will prove equally outstanding.

By order of the Board of Directors.

WILLIAM M. ALLEN,
President

April 11, 1946



FOR LOCAL SERVICE: This Boeing 417 twenty-passenger transport has been engineered to meet requirements of local service operation. Market study is now under way.

BOEING AIRPLANE COMPANY

CONSOLIDATED

December

ASSETS

CURRENT ASSETS:

Cash (including \$7,676,257 restricted under agreements with the United States)		\$25,807,564
United States securities, at cost plus accrued interest		10,265,711
Post-war refund of excess profits tax		4,999,776
Accounts receivable, including \$876,925 of claims and amounts due from the United States		1,115,957
Cost-plus-a-fixed-fee contracts with the United States, including terminated contracts—		
Reimbursable costs, estimated, and accrued fees, less portion of fees withheld, \$2,871,267	\$13,316,777	
Subcontractors' termination claims, estimated balance	23,000,000	36,316,777
Advances to subcontractors		2,704,207
Work in progress and inventories of purchased materials and parts (including costs of \$3,308,164 incurred under contracts to which technical title has passed to the United States)		3,557,315
TOTAL CURRENT ASSETS		\$84,767,307

INVESTMENTS AND OTHER ASSETS:

Balances not yet due from the United States on emergency plant facility contracts (assigned to bank)	\$ 2,081,763	
Investment in and advances to Boeing Aircraft of Canada Limited, a wholly-owned subsidiary, not consolidated (Note 1)	727,805	
Deposits with a mutual insurance company, etc.	72,682	2,882,250
FIXED ASSETS, at cost (Note 2):		
Land and buildings	\$10,489,314	
Machinery, tools and equipment	5,754,202	
	\$16,243,516	
Less—Reserves for depreciation and amortization	13,711,304	2,532,212
DEFERRED CHARGES		204,361
		\$90,386,130

NOTE: The above consolidated balance sheet is subject to the

AND SUBSIDIARY COMPANY BALANCE SHEET

31. 1945

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

Accounts payable		\$ 3,000,569
Subcontractors' termination claims, estimated balance		23,000,000
Accrued wages, taxes, etc.		2,297,043
Reserve for Federal income and excess profits taxes, after deducting claims for refund arising from reallocation of amortization to prior years	\$17,091,479	
Less—United States securities allocated thereto	17,091,479	—
Unexpended balance of partial payments received from the United States for termination claims of subcontractors		5,637,658
Advances on contracts (including \$4,125,000 on cost-plus-a-fixed-fee contracts with the United States)		5,211,992

TOTAL CURRENT LIABILITIES \$39,147,262

NOTES PAYABLE TO BANK, payable in installments from reimbursements receivable from the United States under emergency plant facility contracts, the right of the Company to receive such reimbursements having been assigned to the bank

2,081,763

RESERVES FOR:

Contract adjustments and indeterminate expenses resulting from war-time conditions (Note 3)	\$ 8,900,486	
Development of post-war products and markets	7,675,000	16,575,486

CAPITAL STOCK AND SURPLUS:

Capital stock—		
Authorized—1,250,000 shares of \$5 par value		
Issued and outstanding—1,082,454 shares, including 298½ shares issuable for shares of common stock of United Aircraft & Transport Corporation when presented for exchange	\$ 5,412,270	
Paid-in surplus	8,142,064	
Earned surplus	19,027,285	32,581,619
		<u>\$90,386,130</u>

notes to consolidated financial statements on succeeding pages.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED PROFIT AND LOSS STATEMENT

Year ended December 31, 1945

Sales, consisting principally of costs under cost-plus-a-fixed-fee contracts considered to be reimbursable and accrued fees to the extent that such fees are not withheld (including estimated subcontractors' termination claims of \$34,756,327)		\$420,979,217
Other income, net (including renegotiation rebate claim for a prior year of \$144,981)		168,700
		<hr/>
		\$421,147,917
Cost of sales and expenses, including depreciation of \$1,055,455	\$393,881,302	
Amortization of emergency facilities in excess of normal depreciation, including \$3,427,784 applicable to prior years, less reimbursements of \$2,967,811 received during the year or to be received on emergency plant facility contracts equivalent to related amortization charges (Note 2)	4,195,349	
Provision for estimated Federal taxes on income (excess profits tax \$18,050,000), less refund claims of \$2,567,439 arising from reallocation of amortization to prior years	16,532,561	414,659,212
	<hr/>	<hr/>
Profit transferred to earned surplus		\$ 6,488,705
		<hr/>

NOTE: The above consolidated profit and loss statement is subject to the notes to consolidated financial statements on succeeding pages.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED SURPLUS ACCOUNTS

Year ended December 31, 1945

	<i>Earned surplus</i>	<i>Paid-in surplus</i>
Balance—January 1, 1945.....	\$13,177,632	\$8,142,064
Add—Profit for the year ended December 31, 1945.....	6,488,705	
Restatement of stock in and advances to Boeing Aircraft of Canada Limited to amount which has been invested therein	443,402	
	<u>\$20,109,739</u>	<u>\$8,142,064</u>
Deduct—Cash dividend paid, \$1 per share.....	1,082,454	
Balance—December 31, 1945.....	<u><u>\$19,027,285</u></u>	<u><u>\$8,142,064</u></u>

NOTE: The above consolidated surplus accounts are subject to the following notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1945

NOTE 1:

The stock in and advances to Boeing Aircraft of Canada Limited (a wholly-owned subsidiary, not consolidated) are stated at the amount invested therein by the Company and/or its predecessors. The consolidated balance sheet does not reflect the accumulated earnings of the said subsidiary to December 31, 1945 of \$561,097 (Canadian funds), nor does the profit and loss account include the earnings of \$731,257 (Canadian funds) for the year since operations have been discontinued and the amount of final realization from the investment is not currently determinable. Reference is made to the president's report and the separate balance sheet of the subsidiary.

NOTE 2:

Under the provisions of the Internal Revenue Code the Company has elected to fully amortize facilities covered by certificates of necessity over the commuted period ended September 30, 1945. The balance sheet figures include such facilities in the amount of \$11,962,605 which are fully covered by depreciation and amortization reserves.

Other facilities also covered by certificates of necessity, in the amount of \$4,430,243, acquired under emergency plant facility contracts, to which title will pass to the United States upon completion of payments therefor, have likewise been fully amortized and are excluded in their entirety from the statements.

It is expected that a substantial portion of the facilities will be continued in use by the Company.

NOTE 3:

The balance in the reserve for contract adjustments and indeterminate expenses resulting from war-time conditions is the same as it was at the beginning of the year. It is recognized that there are costs and expenses charged in the current income account, such as unrecoverable deceleration and reconversion costs, reallocated amortization, etc., which might properly have been charged to this reserve, while on the other hand there are contingencies inherent in cost-plus-a-fixed-fee contracts, use of Government property, etc., and renegotiation for 1945 which cannot be evaluated at this time and which are not provided for otherwise in the accounts. The Company believes that the reserve is adequate and, while the items referred to above cannot be individually evaluated, that they are in the aggregate substantially offsetting for the purpose of determining the profit for the year.

ACCOUNTANTS' REPORT

To the Stockholders.

BOEING AIRPLANE COMPANY:

We have examined the consolidated balance sheet of Boeing Airplane Company and Subsidiary Company as at December 31, 1945, and the consolidated statements of profit and loss and surplus accounts for the year then ended. In connection therewith we reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary, except that it was not practicable to obtain satisfactory confirmations of receivables from United States Government departments and agencies, with respect to which we have satisfied ourselves by means of other auditing procedures.

In our opinion, the accompanying consolidated balance sheet and related statements of profit and loss and surplus fairly present the consolidated position of Boeing Airplane Company and Subsidiary Company at December 31, 1945, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the previous year.

ALLEN R. SMART & CO.,
Certified Public Accountants.

Seattle, Washington,
April 11, 1946

BOEING AIRCRAFT OF CANADA LIMITED

CONDENSED BALANCE SHEET as at DECEMBER 31st, 1945

(IN CANADIAN DOLLARS)

ASSETS

Cash in Banks and on Hand		\$ 116,331.60
Accounts Receivable		357,541.14
Due from Parent Company:		
Reimbursable Costs and Accrued Fees in respect of a terminated cost-plus-a-fixed-fee sub-contract	\$398,190.21	
Current Account	16,649.83	414,840.04
Dominion of Canada 1¾% Bonds and Accrued Interest		250,719.20
(Market Value \$250,969.20)		
Inventory Miscellaneous Supplies		1,185.91
TOTAL CURRENT ASSETS		\$1,140,617.89
Fixed Assets, Less Reserve for Depreciation		801.04
Deferred Charges and Prepaid Expenses		12,196.08
Deferred Receivable:		
Refundable Portion of Excess Profits Tax		347,503.51
TOTAL ASSETS		\$1,501,118.52

LIABILITIES

Accounts Payable and Accrued Expenses		\$ 42,650.62
Reserve for Contract Adjustments and Termination Expenses (Note 1)		75,000.00
TOTAL CURRENT LIABILITIES		\$ 117,650.62
Advances from U. S. Affiliated Companies		129,324.35
Capital Stock:		
Preferred Cumulative 6% Redeemable (Note 2)	\$683,000.00	
Common Stock—No Par Value	10,046.20	693,046.20
Surplus (Deficit) as at December 31st, 1944	\$170,159.39*	
Add Net Profit for the year (Note 3)	731,256.74	561,097.35
TOTAL LIABILITIES		\$1,501,118.52

Note: The above Condensed Balance Sheet is subject to the Notes to the Condensed Balance sheet on the next succeeding page.

* Asterisk denotes red figures.

BOEING AIRCRAFT OF CANADA LIMITED

NOTES TO CONDENSED BALANCE SHEET

as at DECEMBER 31st, 1945

NOTE 1:

During the year the Company made provision for contract adjustments in the sum of \$77,840.32. After charging to this account an amount of \$63,800.00 arising out of final settlement of a contract there remained as at December 31st, 1945, a reserve of \$75,000.00 to provide for possible contract adjustments and termination expenses.

NOTE 2:

Dividends on the 6% Cumulative Redeemable Preference Shares are in arrears in an amount of \$436,630.00.

NOTE 3:

The results for the year reflect the inclusion of, and the profit derived from, sales of approximately \$50,000,000.00, deliveries of which were made during the years 1943 and 1944. The adjustment of income and profits taxes in respect of the fiscal years 1940 and 1945 inclusive, is also reflected in the profit for the year ended December 31st, 1945.

ACCOUNTANTS' REPORT

To the Shareholders.

BOEING AIRCRAFT OF CANADA LIMITED:

We report to the Shareholders that we have made an examination of the accounts of Boeing Aircraft of Canada Limited for the year ended December 31st, 1945, and have obtained all the information and explanations we have required.

We have examined the Condensed Balance Sheet of the Company as at December 31st, 1945, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying Condensed Balance Sheet presents fairly the position of Boeing Aircraft of Canada Limited as at December 31st, 1945, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON,
Chartered Accountants.

Vancouver, B. C.
March 20th, 1946

BOARD OF DIRECTORS

WILLIAM M. ALLEN
President
Boeing Aircraft Company

W. E. BEALL
Vice-President Engineering & Sales
Boeing Aircraft Company

FRED P. LAUDAN
Vice-President
Boeing Aircraft Company

HAROLD E. BOWMAN
Secretary and Treasurer
Boeing Aircraft Company

J. E. SCHAEFER
Vice-President
Wichita, Kansas

DARRAH CORBET
Seattle, Washington

DIETRICH SCHMITZ
Seattle, Washington

C. L. EGTVEDT
Chairman
Boeing Aircraft Company

H. O. WEST
Executive Vice-President
Boeing Aircraft Company

OFFICERS

WILLIAM M. ALLEN President
C. L. EGTVEDT Chairman
H. O. WEST Executive Vice-President
J. E. SCHAEFER Vice-President
W. E. BEALL Vice-President Engineering & Sales
JAMES P. MURRAY Vice-President
HAROLD E. BOWMAN Secretary and Treasurer

General Counsel
HOLMAN & SPRAGUE

General Auditors
ALLEN R. SMART & CO.

Transfer Agent

CITY BANK FARMERS TRUST COMPANY, NEW YORK

Registrar

THE NATIONAL CITY BANK OF NEW YORK, NEW YORK

